NEWS

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Latvian Officials Freeze More Than €30 Million from Clients of US-Targeted Bank

By Koos Couvée

More than 30 percent of the record €101 million in suspicious assets Latvian officials froze last year belongs to clients of ABLV Bank, a Riga-based lender that collapsed last year after U.S. officials moved to blacklist it as a conduit for illicit finance.

ABLV, Latvia's third largest lender by assets, entered liquidation in March 2018, weeks after the Treasury Department labeled the bank a "primary money laundering concern" and proposed to sever its access to the U.S. financial system for maintaining corporate accounts for arms dealers, corrupt officials and other criminals.

In a 16-page report, Latvia's financial intelligence unit, the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity, disclosed that the task of processing, analyzing and pursuing leads from suspicious transaction reports filed by ABLV's government liquidators has tested the agency.

"This has been one of the most challenging projects … and will continue to be significant in 2019 and 2020, too," Latvian officials wrote in the report.

Officials responded to the ABLV scandal with a multifaceted strategy that ushered in a ban on the provision of accounts to certain types of shell companies.

But the Baltic nation's plight deepened further in August, when intergovernmental group Moneyval found in a damning report that Latvian authorities and banks often fail to guard their financial system against money launderers, sanctions evaders and terrorist financiers in other jurisdictions.

Latvia now faces the prospect of inclusion on a gray list of high-risk nations kept by the Financial Action Task Force if the country does not bring its defenses against financial crime up to global standards by the end of the year.

Those and other developments “shook” the country, Ilze Znotina, who took over as head of the financial intelligence unit, or FIU, in the wake of the ABLV scandal, wrote in the report, which was published in English on Tuesday.

“As a result of these events, not only has the responsibility, scope and volume of work of the [FIU] changed, but also the understanding of the entire Latvian population that circulation of illegal funds in the Latvian financial system is a direct threat for safety and sustainability of our country,” she wrote.

New record

The FIU also responded to the ABLV scandal and the crisis of confidence that followed by obtaining 198 asset freezing orders against a total of €101 million in 2018, more than double the sum restrained in 2017. Latvian officials estimated that nearly three-quarters of the funds they froze last year originated from crimes committed abroad.

In an email to *ACAMS moneylaundering.com*, Yehuda Shaffer, former chief of Israel’s FIU and an ex-Moneyval evaluator, wrote that Latvia’s actions against clients of ABLV indicates an awareness that the bank’s liquidation comes with an opportunity to demonstrate the efficacy of the country’s reforms.

“It’s a positive step,” said Shaffer, now a consultant.

Separately, the turbulent events of 2018 did not translate into an increase in suspicious transaction reports, or STRs, that Latvian banks and other firms regulated for anti-money laundering purposes filed to the FIU, according to the report.

After receiving 7,772 STRs in 2017, the agency received 6,617 STRs last year, conducted further analysis on nearly half of them and forwarded 470 to domestic law-enforcement agencies and foreign FIUs.

However, the FIU observed a three-fold increase in the volume of “unusual” transaction reports, from 8,725 in 2017 to 25,170 last year. The reports, or UTRs, cover cash transactions exceeding €10,000 and foreign exchange activity of more than €5,000, but also disclose suspected attempts to finance terror or violate sanctions.

Valters Diure, an attorney with Ellex Klavins in Riga, said that the decrease in STRs may have resulted from the departure of thousands of high-risk nonresident clients from Latvia’s banking sector as the anti-money laundering reforms that followed ABLV’s collapse took hold.

The dramatic increase in the UTRs may have the same origin, as firms became more aware of their AML obligations amid the events of last year and more frequent examinations by their regulators, Diure said.

According to the annual report, Latvian officials plan to implement procedures to “reduce uncertainty” over when a particular transactions merits a UTR rather than an STR, and vice versa.

Krisjanis Buss, an attorney with the Cobalt law firm in Riga, said that officials are expected to base the new reporting obligations on clear thresholds rather than subjective considerations around suspicious activity.

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